

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

214 O'Neill HOB ■ Washington, DC 20515 ■ 202-226-7200

August 27, 2001

CBO Numbers Confirm That Bush Tax Cut Taps Social Security and Medicare Surpluses

Dear Democratic Colleague,

The new budget numbers released today by the Congressional Budget Office confirm what we have been saying for over a year: the Bush tax cut forces the government to invade both the Social Security and Medicare Trust Fund surpluses. As the attached materials make clear, the government will tap \$29 billion from Medicare and \$9 billion from Social Security to fund government operations for this year alone. Over the next five years, the tax cut will force a \$30 billion diversion from the Social Security Trust Fund and a \$170 billion diversion from the Medicare Trust Fund.

As troubling as these figures are, they represent only the beginning of the bad news. Today's CBO projections are "baseline" estimates that do not assume *any* of the additional spending included in either the Bush budget or the Congressional budget resolution for defense, education, or Medicare prescription drugs. The figures also omit the cost of extending expiring tax credits, funding anticipated emergencies for natural disasters, or paying for the \$73.5 billion farm reauthorization bill which the Budget Resolution provided for.

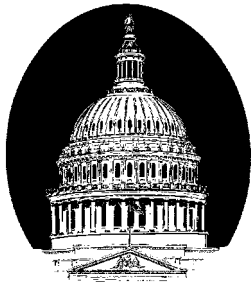
Despite White House denials, the President's tax cut and spending requests, not new Congressional spending, are driving the government back into the red. The President's budget *alone*, plus his tax policies and spending requests, invades the Social Security surplus for the next six years and Medicare for the next eight years. And that is without one dime of the so-called "irresponsible" Congressional spending that the White House now claims to be the "biggest" threat to the trust funds.

While the outlook in the short term is troubling, the worst consequences of the Bush budget lie in the future toward the end of the decade. Revenue losses due to the Bush tax cut will undermine the Medicare and Social Security surpluses just as the baby boom generation is beginning to retire.

Please feel free to call me or the Budget Committee's Democratic staff with any questions.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member



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CBO Confirms Bush Budget Taps Social Security and Medicare Surpluses

August 27, 2001

The Congressional Budget Office confirms today what Democrats have been saying for over a year: the Bush tax cut is so big, it forces the government to invade both the Social Security and Medicare surpluses. According to CBO, the government must divert \$30 billion from the Social Security Trust Fund and \$170 billion from the Medicare Trust Fund over the next five years. The President claims the 2001 surplus is the 'second largest' in history. But this year alone, the government is actually in deficit and must tap \$29 billion from Medicare and \$9 billion from Social Security to fund routine government operations.

In a sharp reversal of long-standing promises made by President Bush and GOP Congressional leaders, the President conceded on August 24 that he is prepared to tap the Social Security surplus. The President finally admitted that his budget policies are driving the government to spend Social Security. Until now, there has been a broad national consensus among Republicans and Democrats that saving the Social Security and Medicare surpluses is essential to ensure the long-run solvency of both programs. Saving these surpluses and using them to pay down public debt helps lower interest rates and increase national savings and investment. Paying down the public debt ensures that the government will be better able to meet its long-term Medicare and Social Security obligations when the baby boom generation starts collecting benefits.

The Medicare and Social Security diversions will be even greater than today's CBO numbers reflect. The CBO projections are "baseline" estimates that assume only the continuation of current law with no changes in either spending (other than for inflation) or tax law. In other words, the CBO numbers do not assume *any* of the additional spending included either in the Bush budget or the Congressional budget resolution for defense, education or Medicare prescription drugs. Nor do they assume the extension of expiring tax credits which everyone, including the President, agrees must be extended. Nor do they assume the cost of anticipated emergencies for floods, hurricanes or fires. Nor they assume the cost of the farm bill reauthorization.

Assuming the enactment of the President's requests and using the realistic CBO estimates rather than OMB's rosy scenarios, the government will be tapping Social Security for the next six years and Medicare for the next eight years in a row. Once the President's additional spending (e.g. defense, prescription drugs and education) and tax cuts (e.g. repealing sunsets) are assumed, the White House will be tapping: \$128 billion of Social Security for the next six years in a row; and \$304 billion from Medicare for the next eight years in a row.

Despite the White House's latest efforts to shift the blame, the President's tax cut and spending requests, not new Congressional spending, are driving the government back into the red. The President's budget *alone*, with his tax policies and his spending requests, invades the Social Security surplus for the next six years and Medicare for the next eight years. And that is without one dime of the so-called "irresponsible" Congressional spending the White House now claims is the "biggest" threat to the trust funds.

Last week, the Bush Administration admitted its tax cut is so big, it must break its promise to seniors and the uninsured. On August 24, HHS Secretary Tommy Thompson said, "the reality is the economy is starting to contract and when it does, you don't have the money." He explained, "it is going to be very difficult" to find the money to fund a Medicare prescription drug program. When asked about the \$28 billion in the President's budget to fund health care for the uninsured, he added, "I don't know if it's going to be there."

In only eight months, the Bush Administration has reversed the preceding eight years of fiscal improvement. Until this year, the government's fiscal health had improved for eight years in a row, culminating last year with the largest budget surplus in history. Now we are swinging back into deficit spending because of the Bush tax cut.

The 2001 budget deficit outside of Medicare and Social Security merely foreshadows the perilous fiscal course to which President Bush has committed the country for the next decade. The real story is not the one-year invasion of the trust fund surpluses. That is just the first step of a multi-year budget centered on an exploding tax cut that will undermine Medicare and Social Security just as the baby boom generation is beginning to retire.

CBO forecasts are more reliable than Bush/OMB projections. Congressional Republicans should remember that they shut down the government twice in 1995 and 1996 until President Clinton agreed to use CBO rather than OMB budget estimates because CBO forecasts were more accurate. Unlike CBO, OMB uses scoring gimmicks to conceal the deficits. OMB:

- ▶ has returned to the bad old days of using rosy economic assumptions to make it appear that the President's numbers add up. OMB assumes a 3.2% annual growth rate in 2002, even though the "Blue Chip" economists project a 2.8% rate growth rate;
- ▶ plays games with the accounting of Social Security receipts to make it appear that the Bush budget doesn't invade the Social Security surplus in 2001;
- ▶ assumes corporations will pay \$5 billion in taxes earlier than they are due.

When President Bush conceded on August 24th that he was prepared to tap Social Security, he was implicitly conceding that the CBO forecasts are right.